LITHUANIA

With a territory roughly the size of West Virginia and a population of 3.6 million, Lithuania is the largest of the three Baltic states. Lithuania shares borders with Latvia, Poland, Belarus, and the Russian region of Kaliningrad. Upon regaining its independence, Lithuania, like the other two Baltic nations, faced the daunting task of transforming its economy. Combined with some genuine political resiliency and some assistance from international organizations like the International Monetary Fund, Lithuania successfully put itself on track with the rest of the Baltic region and is forging ahead with a strong economic agenda.

Today, Lithuania's economy is one of the fastest-growing economies in Central and Eastern Europe. In the first half of 2002, GDP grew 5.7 percent, and the growth projections for the coming year are strong. The industry sector experienced a 17-percent growth spurt in 2001. Despite the global economic slowdown, retail sales increased 14 percent in the first seven months of 2002.

SUCCESSFUL POLICY

In 1992, Lithuania adopted a strict fiscal plan, with the help of the IMF and other international institutions, to lower the budget deficit, restrain inflation, reduce price controls, and privatize the economy. The local currency (the litas, which is pegged to the euro) has maintained a stable rate against the U.S. dollar and other major currencies since 1994. The government's privatization efforts are essentially complete, and more than 80 percent of the economy is privately owned. The banking sector has been completely privatized, with 90 percent owned by major Western banks. In light of these accomplishments, trade for Lithuania in 2001 exceeded $10 billion, with exports of $4.8 billion and imports of $5.7 billion.

One also must not discount the role that FDI has played in Lithuania's success. Overall FDI in 2000 amounted to almost $300 million, and within the first nine months of 2001 FDI approached $450 million. Without the inflow of foreign capital, major infrastructure improvements would not have been possible. As the country moves toward full integration into the European Union and adopts the *acquis communitaire*, the common body of EU law, FDI will continue to play a crucial role in major infrastructure projects in the environmental and transportation sectors.

PROMISING SECTORS

Lithuania has several areas in which it has a natural competitive advantage, and the country wishes to capitalize on those strengths by increasing activity and attracting investors in these areas. The most attractive sectors for

Last year, Lithuania's exports increased by 20 percent and imports by 15 percent in comparison with 2000. Lithuania's primary export destinations are Latvia, Germany, Russia, and the United Kingdom. Its major import suppliers are Russia, Germany, Poland, and Italy.

U.S. companies are IT/computer hardware and software development, pollution control equipment/environmental services, and maritime transportation. The IT sector in Lithuania is growing at an annual rate of 30 percent and has a total value of approximately $2 billion.

By implementing programs for e-government, a knowledge-based economy, and a knowledge-based society, the Lithuanian government has clearly made IT development a priority. In fact, Lithuania was the first of the Baltic states to adopt a law on electronic signatures. The IT sector employs 10,000 qualified specialists in Lithuania, and the government plans to implement programs aimed at increasing that number.

The environmental sector is an area of growing concern in Lithuania. Having signed an association agreement with the European Union in 1996, Lithuania must now pass legislation conforming to EU environmental laws. Some estimates call for spending $50 million annually in order to meet EU requirements by 2015. The bulk of these funds would be used to improve wastewater treatment, sewage networks, and waste management. With new legislation and regulations, opportunities will abound in fields ranging from protection and prevention, to remediation, monitoring, and waste disposal.

As mentioned above, maritime transportation and port development are key points of development for each of the Baltic states. The Port of Klaipeda is one of its jewels on the Baltic Sea. The Lithuanian port, located approximately 315 kilometers from Vilnius and 1,150 kilometers from Moscow, handled approximately 17,236 metric tons of cargo and 101,000 passengers in 2001. With more than 200 private port and shipping companies operating in Klaipeda's state seaport, the Lithuanian government seeks to increase its capacity and entice more exporters and investors to use Klaipeda as a point of entry for their goods into the European Union and northwest Russia. As the port expands its capabilities, increased opportunities exist in the transport and logistics sector here.

LITHUANIA: FACTS AND FIGURES

Total area: 65,200 square km (slightly larger than West Virginia)
Population: 3.6 million
Real GDP growth: 4.8% (2003 forecast)
Inflation: 2.5% (2003 forecast)
GDP by sector: services 59%, industry 32%, agriculture 9%
Main industries: machine tools, electric motors, television sets, refrigerators and freezers, petroleum refining, shipbuilding, furniture, textiles, food processing, fertilizers, agricultural machinery, optical equipment, electronic components, computers, amber
Currency: litas
Exports: mineral products, textiles and clothing, machinery and equipment, chemicals, wood and wood products, foodstuffs
Imports: mineral products, machinery and equipment, chemicals, textiles and clothing, transportation equipment
Main languages: Lithuanian (official; first language of 82% of the populace), Russian, Polish.
Sources: CIA, EIU, IMF.

THE KALININGRAD QUESTION

EU enlargement poses several challenges in the Baltic region, particularly for Lithuania and Poland, which are preparing to join the European Union in 2004. The Russian region of Kaliningrad, cut off from the rest of Russia, has been in recent months a controversial issue between Russia and the European Union, because Poland and Lithuania would upon EU accession adopt common EU border regimes. Russia has protested vigorously the idea that some 1 million Kaliningrad residents might be required, after this EU enlargement, to obtain visas for travel between the Russian enclave and its neighbors. Presently, Kaliningrad residents can travel through Poland and Lithuania, without visas or passports, to go to or from the rest of Russia. Russia and the European Union brokered a deal in mid-November that should allow Russians to travel to and from the enclave with special multiple-entry travel documents, the costs of which would be incurred by the European Union. The details of this arrangement will unfold next year, along with further discussions on the possibility of a non-stop rail link from Kaliningrad, through Lithuania, to the rest of Russia.